X. RECENT PROPOSALS TO MODIFY THE TAX TREATMENT OF U.S. CITIZENS AND RESIDENTS WHO RELINQUISH CITIZENSHIP OR TERMINATE RESIDENCY

A. Overview

Several alternatives to the present-law alternative tax regime have been considered. One alternative is a mark-to-market income tax upon an individual's citizenship relinquishment or residency termination. Such an approach would subject such individuals to U.S. income tax on the net unrealized gain with respect to their worldwide assets as if such property were sold for fair market value on the date of citizenship relinquishment or residency termination. Among other things, such an approach would differ from the present-law alternative tax regime in that the mark-to-market tax would be imposed regardless of whether the individual's citizenship relinquishment or residency termination was tax-motivated.

This section describes several recent mark-to-market tax proposals relating to citizenship relinquishment or residency termination: (1) the Clinton Administration's Fiscal Year 2001 Budget Proposal (the "Clinton Budget proposal"); (2) a bill introduced on October 19, 1999, by Representatives Rangel and Matsui (H.R. 3099, 106th Congress), and similar bills introduced on June 26, 2002, by Representatives Rangel and Gephardt (H.R. 4880, 107th Congress) and on July 22, 2002, by Senators Harkin and Stabenow (S. 2769, 107th Congress), (unless otherwise indicated, these bills are referred to collectively as the "House bill"); and (3) a bill passed by the Senate on October 3, 2002, (as an amendment to H.R. 5063) (the "Senate amendment"). This section also discusses general issues presented by a mark-to-market tax on citizenship relinquishment or residency termination.[543]

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[543] For a more detailed discussion of a mark-to-market tax upon citizenship relinquishment or residency termination, see the 1995 Joint Committee staff study, supra note 315. The 1995 Joint Committee staff study analyzed various proposals to modify the tax treatment of citizenship relinquishment and residency termination that would have required U.S. citizens and certain long-term residents to pay a mark-to-market tax with respect to unrealized gains on their assets upon citizenship relinquishment or residency termination. The Clinton Administration submitted such a proposal as part of the President's Fiscal Year 1996 Budget, which was included in H.R. 981 and S. 453 on February 16, 1995. The Congress considered a modified version of the Clinton Administration's Fiscal Year 1996 Budget Proposal, which passed the Senate as an amendment to H.R. 831 on March 25, 1995. The Congress also considered a modified version of that Clinton Administration proposal, which passed the Senate as an amendment to H.R. 3448 on July 9, 1996. For a recent proposal relating to a mark-to-market tax on former citizens and former long-term residents, see the Clinton Administration's Fiscal Year 2001 Budget Proposal described below.